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Surveys of Consumers

Richard T. Curtin, *Director*

REBOUND IN CONSUMER CONFIDENCE CONTINUES

- The Index of Consumer Sentiment rose to 90.8 in the January 1988 survey, from 86.8 in December and 83.1 in November. The rebound following the stock market crash has now restored the Index to the year earlier reading of 90.4. The recent improvement has been in assessments of the near term outlook for both personal finances and the national economy.

- Among families with incomes of $30,000 or more, the Index rose to 99.0 in the January 1988 survey from 94.5 in December and 87.7 in November. This strong two month improvement among high income families brought the Index to just below the year earlier reading of 101.2.

- Immediately following the stock market crash, the surveys recorded a sharp rise in the proportion of consumers that expected bad times financially in the country as a whole. Since then, this expectation has been reversed. In the January 1988 survey, 47 percent of all families expected good times financially during the year ahead compared with 37 percent that expected bad times financially. This is nearly the reverse of the November reading, when the balance of opinion was unfavorable, with 45 percent expecting bad times compared with 38 percent that expected good times financially.

- In contrast to the improvement in the one year outlook for the economy, consumers did not judge longer term prospects for the economy more favorably. In the January 1988 survey, 50 percent of all families expected bad times financially in the economy during the next five years, up from 44 percent in December, and comparable to the 51 percent recorded in November 1987. These results indicate that the initial fears of consumers of an imminent recession due to the stock market crash have been dispelled, but that concerns about the longer term vitality of the economy still remain.

- The positive aspects of the current outlook is that the majority of consumers expected the national unemployment rate and the inflation rate to remain largely unchanged at their current levels during the year ahead. The negative aspects involve expectations of rising interest rates. Among all families in the January 1988 survey, 54 percent expected increases in interest rates during the year ahead. This represents an improvement from the two-thirds of consumers that voiced this expectation from May to October 1987, but is well above the year earlier reading of 37 percent. It has been these changing assessments of interest rates that have dulled favorable buying attitudes.

- Favorable attitudes toward buying conditions for homes were held by 67 percent of all families in the January 1988 survey, up from the crash depressed level of 58 percent two months earlier, but still below the year earlier level of 76 percent. Many fewer consumers cited the availability of low mortgage rates in January 1988 than one year earlier (35, down from 65 percent). Partially offsetting this decline has been a small increase in the proportion of families that cited the appeal of borrowing in advance of expected mortgage rate increases, rising to 13 percent in January 1988 from 4 percent one year earlier. Thus far, these mortgage rate concerns have led to only a marginal increase in the view that current mortgage rates were too high and a cause for postponement (13 percent in January 1988, up from 7 percent one year earlier).

- The proportion of families holding favorable car buying attitudes fell to 59 percent in January 1988 from 64 percent one month earlier. This reading is comparable to those recorded in the October and November 1987 surveys, and just ahead of the 55 percent recorded in January 1987. The January 1988 survey recorded an increase in references to the availability of discounted prices compared with a year earlier (32, up from 21 percent), but a decline in references to the availability of interest rate discounts (20, down from 32 percent). Little change was recorded during the past year in either complaints about high prices (17 percent) or high interest rates (5 percent).

- Attitudes toward buying conditions for household appliances, furniture, and electronic goods improved slightly in the January 1988 survey, regaining the year earlier level. Among all families, 72 percent held favorable buying attitudes toward household durables in the January 1988 survey, up from 69 percent in late 1987, and equal to the year earlier reading. The improvement since late 1987 has been due to more favorable opinions of market prices. The proportion of families reporting the availability of discounted prices rose to 37 percent in January 1988 from the October low of 28 percent.

- Nearly twice as many consumers reported that their financial situation has improved rather than worsened during the past year (46 versus 24 percent)—an assessment that has remained largely unchanged during the past year. The January improvement came in expectations for the year ahead. Among all families, 38 percent expected their financial situation to improve, up from 32 percent in December, while the number that expected worsening finances fell to 7 from 12 percent. Importantly, the proportion of families that expected income declines fell to just 10 percent in January from 19 percent one month earlier.

- These data indicate that the stock market crash has had only a small and temporary impact on consumer confidence. Following their initial reaction to the plunge in stock prices, consumers have now regained confidence in the domestic economy. That confidence has now returned to the levels prevailing before the market crash is certainly good news. But it must be remembered that even before the crash, consumer confidence had already shown signs of erosion. The majority of consumers, then as now, expect only modest gains in their personal financial situation, and expect that the overall performance of the national economy will remain sluggish. Although the darkening clouds on the economic horizon now appear more distant than a few months ago, they have not disappeared from view.

- Overall, these results indicate that a consumer led recession during 1988 is not in the making. Nonetheless, the data do indicate that a slowing in the pace of sales of homes and vehicles is in progress. Renewed deep discounting by vehicle manufactures and declines in mortgage rates would strengthen these otherwise lackluster prospects.

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The January 1988 survey was conducted between January 4 and January 31, 1988 and included 502 completed interviews.